


2010 REGULAR SESSION  
ACTUARIAL NOTE HB 747

<b>House Bill 747 HLS 10RS-1613 Enrolled</b>  <b>Author:</b> <b>Representative Jeffery "Jeff" J. Arnold</b> <b>Date: June 21, 2010</b>  <b>LLA Note HB 747.04</b>  <b>Organizations Affected:</b> <b>Harbor Police Retirement System</b> <b>(Port of New Orleans)</b>  <b>EN +\$233,000 APV</b>	<b>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</b>   <b>David K. Greer, CPA</b> <b>Assistant Legislative Auditor and</b> <b>Director of Performance Audit</b> <b>and Actuarial Services</b>
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**Bill Header:** RETIREMENT/LOCAL: Relative to the Harbor Police Retirement System (Port of New Orleans) provides that persons retired from other systems are eligible for membership from their date of hire.

**Cost Summary:**

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$232,000
Total Five Year Fiscal Cost	
Expenditures	(\$188,000)
Revenues	(\$182,000)

**Estimated Actuarial Impact:**

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with other fiscal concerns.

	<b>Increase (Decrease) in The Actuarial Present Value</b>
<b>Actuarial Cost (Savings) to:</b>	
All Louisiana public retirement systems	\$232,000
Other Post Retirement Benefits	\$0
Total	\$232,000

**Estimated Fiscal Impact:**

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits, as well as other fiscal concerns.

<b>EXPENDITURES</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	(108,000)	0	0	0	0	(108,000)
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	(32,000)	(12,000)	(12,000)	(12,000)	(12,000)	(80,000)
Annual Total	\$ (140,000)	\$ (12,000)	\$ (12,000)	\$ (12,000)	\$ (12,000)	\$ (188,000)

<b>REVENUES</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>5 Year Total</b>
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	(48,000)	(18,000)	(18,000)	(18,000)	(18,000)	(120,000)
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	(62,000)	0	0	0	0	(62,000)
Annual Total	\$ (110,000)	\$ (18,000)	\$ (18,000)	\$ (18,000)	\$ (18,000)	\$ (182,000)

**Bill Information:**

**Current Law**

Under current law a person employed on or before July 7, 2003, who is retired from another Louisiana public retirement system and collecting a pension from that system, may become a member of the Harbor Police Retirement System (HPRS) on July 7, 2003. Such a member may purchase service with the Harbor Police before July 7, 2003 in accordance with the provisions of R.S. 11:158.

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### **Proposed Law**

HB 747 provides that a person employed on July 17, 2003 (note: the original law specifies a July 7, 2003 date; HB 747 specifies July 17, 2003), who is retired from another Louisiana public retirement system and collecting a pension from that system, may become a member of HPRS as of his initial date of hire. As a result all of the member's service after his hire date is credited under the retirement system and no purchase of prior service credit will be necessary.

### **Implications of the Proposed Changes**

The purpose of HB 747 is to correct an administrative issue associated with the Harbor Police Retirement System. The issue pertains to one member of HPRS. A complete explanation is given below under Analysis of Actuarial Cost.

### **Cost Analysis**

#### **Analysis of Actuarial Costs**

##### **Retirement Systems**

The current Chief of Police was hired by the Port of New Orleans Harbor Police on October 30, 1995. He was 49 years old at the time and was collecting a pension from the New Orleans Police Retirement System. Apparently, the Chief was told in the recruitment process that he would be eligible to participate and accrue benefits in the New Orleans Harbor Police Retirement System. And in fact, he joined HPRS after he was hired and both he and his employer contributed to the system.

##### ***Issue #1***

The recruiters and the personnel department for Harbor Police may have been in error in stating that the Chief could join HPRS. R.S. 11:3683(3)(b) which pertains to membership in the Harbor Police Retirement System stated: "No person who has retired from service under any retirement system of this state partly or wholly financed by public funds who is receiving retirement benefits therefrom shall be eligible to become a member of this system after retirement." The Chief was retired and collecting a pension from the New Orleans Police Retirement System and therefore not eligible to become a member of the Harbor Police system.

##### ***Issue #2***

The administrator for HPRS may have been in error in allowing the Chief to join the system in 1995 when the Chief was hired. Note: the Chief of Harbor Police is an ex-officio member of the board of trustees of HPRS and has served as its chairman since he was hired.

##### ***Issue #3***

As a result of Issue #2, both the Chief and his employer contributed to HPRS (potentially in error) from his hire date on October 30, 1995 to July 7, 2003 when the law was changed to allow him to become a member.

##### ***Issue #4***

Act 1255 of the 2003 legislative session provided that a person employed by the Harbor Police on July 7, 2003 who had retired and was collecting a pension from another Louisiana public retirement system could become a member of HPRS on July 7, 2003. The Act further provided that such an employee could purchase service credits prior to July 7, 2003 in accordance with R.S. 11:158.

The HPRS was correct to allow the Chief to become a member of HPRS on July 7, 2003. However, it may have erred in granting the Chief prior service retroactive to 1995. R.S. 11:158 specifies that the purchase price for prior service is the greater of the following amounts:

1. Rule #1 - An amount which on an actuarial basis totally offsets the increase in the accrued liability of the system resulting from such purchase, or
2. Rule #2 - The employee and employer contributions that would have been paid to the system plus interest thereon calculated using the actuarial valuation interest rate.

Rule #2 had been satisfied by contributions to the system made by the Chief and the employer. However, the Rule #1 amount was larger than the Rule #2 amount. To receive credit for the prior service, the Chief was required to pay the difference: that is, the extent to which the increase in the actuarial accrued liability (Rule #1) was greater than contributions already made (Rule #2). Because the additional payment was not made, the Chief may have been improperly given service credits that he should not have had.

##### ***Issue #5***

The plan administrator may have erred in allowing the Chief to enter DROP on March 31, 2008 and \$2,917.39 per month began to be deposited into his DROP account (potentially in error). If the rules had been followed, the Chief would have had only 4.75 years of service and therefore would not have been eligible to enter DROP.

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In light of these issues, it is difficult to determine the starting point for measuring the cost of HB 747. What benefit is the Chief entitled to if HB 747 is not enacted? Will it be a complete reversal of his benefit entitlements at least back to his valid entry into the plan in 2003? Should prior service credits prior to 2003 be granted or denied? At what point does an administrative error become an employee entitlement? To what extent is the retirement system responsible for the administrative error and to what extent is the employer responsible?

There are no clear answers to these issues. We did not attempt to determine the legality of these various issues. To complete this note, the actuarial cost of HB 747 had been measured by defining the starting point in the following manner:

1. All administrative issues will be corrected retroactively.
2. The chief would not have elected to purchase his prior service in 2003 if he had known the cost.

In order to define a starting point, we assumed all issues would need to be corrected in order to measure the maximum actuarial cost of HB 747. Again, we did not attempt to determine the legality of these issues and only make this assumption to give a starting point that will give the maximum potential impact of HB 747. The actuarial cost will not exceed this amount no matter what alternative solutions may develop should the bill not be passed. Therefore, the following assumptions have been made about the Chief benefit rights without legislative relief.

1. The Chief's date of entry into the retirement system will be revised to July 7, 2003.
2. The Chief's credited service as of July 7, 2003 is 0.00 years. His credited service as of March 31, 2008 is 4.75 years.
3. Because he is not eligible to retire on March 31, 2008, he cannot enter DROP. Therefore all monies deposited into his DROP account must be reclaimed by the retirement system. His DROP account balance will be reduced from about \$80,000 to \$0.
4. The chief's service as of June 30, 2010 will be reduced to 7.00 years. He currently has 4.75 years of service between July 7, 2003 and March 31, 2008 when he erroneously entered DROP. He will be given 2.25 years of service for the period between April 1, 2008 and June 30, 2010.
5. Because he could not enter DROP on March 31, 2008, the Chief and his employer should have made contributions to the retirement system for the 2.25 year period from March 31, 2008 through June 30, 2010. The retirement system should collect an additional \$30,000; with about \$10,000 coming from the Chief and about \$20,000 for the Harbor Police.
6. Employer and employee contributions made between 1995 and 2003 should be refunded with interest though June 30, 2010. The total refund will be about \$108,000 with \$46,000 going to the Chief and \$62,000 to his employer.
7. The Chief will not be eligible to retire until July 7, 2013 when he has 10 year of service credit.

If legislative relief is not granted and the corrective steps enumerated above are taken, the unfunded accrued liability of the plan will be about \$233,000 less than the amount currently reported by the actuary for the system.

**Actuarial Cost**

If legislative relief is not granted through HB 747, the unfunded accrued liability of the plan should be reduced by about \$232,000 (See Table A). Therefore, enactment of HB 747, which will make this all go away, will cost about \$233,000.

**Table A**

<b>Adjustments</b>	<b>Liability Adjustment</b>	<b>Asset Adjustment</b>
Refund of Pre 2003 Employee Contributions	\$ 0	\$ (46,000)
Refund of Pre 2003 Employer Contributions	0	(62,000)
Reclaim DROP Account Balance	(80,000)	0
Charge for Employee Contributions for Years in DROP	0	10,000
Charge for Employer Contributions for Years in DROP	0	20,000
Remove 7.35 Years of Service Credit	(230,000)	0
Total	\$ (310,000)	\$ (78,000)
Net Adjustment = Liability Adjustment – Asset Adjustment	\$ (232,000)	

**Other Post Retirement Benefits**

There are no actuarial costs or savings associated with HB 747 for other post employment benefits.

**Analysis of Fiscal Costs**

HB 747 will have the following effect on fiscal costs.

1. If HB 747 is not enacted, retirement system expenditures will increase \$108,000 in 2010-11 to refund pre 2003 employer and employee contributions. If HB 747 is enacted, these refunds will not be made and expenditures (Agency Self Generated) will decrease \$108,000.

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- 2. If HB 747 is not enacted, retirement system revenues will increase \$30,000 in 2010-11 for retroactive collection of employee and employer contributions between 2008 and 2010. If HB 747 is enacted, retirement system revenues (Agency Self Generated) will be reduced by \$30,000.
- 3. Without enactment of HB 747, retirement system revenues (Agency Self Generated revenues) will increase in future years by 20% of pay or about \$18,000 a year with \$12,000 coming from the employer and \$6,000 from the employee. With enactment, revenues will decrease \$18,000 a year.
- 4. Employer expenditures (expenditures from Local Funds) will increase by \$20,000 in 2010-11 if HB 747 is enacted. If HB 747 is enacted, these expenditures will go away. Therefore there is a \$20,000 reduction in expenditures of Local Funds.
- 5. Without enactment of HB 747, employer contributions (Local Fund expenditures) will increase in future years by 13% of pay or about \$12,000 a year if HB 747 is not enacted. With enactment, Local Fund expenditures will decrease by \$12,000 a year.
- 6. Employer revenues (Local Fund revenues) will increase \$62,000 in 2010-11 if HB 747 is not enacted. If HB 747 is enacted, these revenues will not occur. Therefore, HB 747 causes a \$62,000 reduction in Local Fund revenues.

**Dual Referral**

**Senate**

- ☐ 13.5.1  $\geq$  \$500,000 Annual Fiscal Cost
- ☐ 13.5.2  $\geq$  \$500,000 Annual Tax or Fee Change

**House**

- ☐ 6.8(F)  $\geq$  \$500,000 Annual Fiscal Cost
- ☐ 6.8(G)  $\geq$  \$500,000 Tax or Fee Increase or a Net Fee Decrease

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